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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended January 31, 1992

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number ~~0-10659~~ 1-8982

METRO AIRLINES, INC.
(Exact name of Registrant as specified in its charter)

Delaware	74-2211124
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

PROCESSED BY
MAR 12 1992
Microfilmed by
Q-Data Corp. - St. Petersburg, FL

One Metro Centre
1700 West 20th Street
D/FW Airport, Texas 75261

(Address of principal executive offic
(Zip code)
(214) 453-4400

(Registrant's telephone number, including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT: NONE

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:

Common Stock, $.10 par value
(Title of class)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes _X_ No ___

As of January 31, 1992, there were outstanding 3,575,934 shares of Common Stock and 2,538,356 shares of Class B Common Stock of the Registrant.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

METRO AIRLINES, INC.

CONSOLIDATED BALANCE SHEETS
(In thousands)

ASSETS	January 31, 1992 (unaudited)	April 30, 1991
Current assets:		
Cash	$ 9,972	$ 4,519
Accounts receivable:		
Trade	536	1,045
Other	327	329
Expendable parts and supplies	2,304	2,937
Prepayments and other	1,701	1,114
Total current assets	14,840	9,944
Property and equipment, at cost:		
Flight equipment	17,561	16,943
Ground equipment and other	10,613	10,316
	28,174	27,259
Less accumulated depreciation and amortization	8,717	8,016
Net property and equipment	19,457	19,243
Note receivable from related party	2,500	2,500
Cost in excess of net assets of businesses acquired, net of accumulated amortization of $1,178 and $979	9,470	9,669
Other assets, at cost net of accumulated amortization of $464 and $375	2,624	2,720
Total assets	$ 48,891	$44,076

See accompanying notes to consolidated financial statements.

(continued)

METRO AIRLINES, INC.

CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share amounts)

LIABILITIES AND STOCKHOLDERS' DEFICIT	January 31, 1992 (unaudited)	April 30, 1991
Current liabilities:		
Accounts payable	$ 1,796	$ 1,269
Accrued payroll costs	1,678	1,318
Accrued lease payments	1,517	1,333
Other accrued liabilities	2,351	1,994
Total current liabilities	7,342	5,914
Liabilities subject to Chapter 11 proceedings	64,960	66,855
Deferred lease incentives	3,889	4,120
Deferred gain on sale-leaseback transactions	2,870	3,430
Other long-term liabilities and deferred credits	1,061	189
Total liabilities	80,122	80,508
Stockholders' deficit:		
Serial preferred stock; $.10 par; 1,000,000 shares authorized; none outstanding	-	-
Common stock; $.10 par; 20,000,000 shares authorized; 3,675,537 shares issued at January 31, 1992	367	343
Class B common stock; $.10 par; 20,000,000 shares authorized; 2,538,356 shares outstanding at January 31, 1992	254	278
Additional paid-in capital	13,648	13,648
Accumulated deficit	(45,069)	(50,270)
Treasury stock, at cost; 99,603 shares	(431)	(431)
Total stockholders' deficit	(31,231)	(36,432)
Total liabilities and stockholders' deficit	$ 48,891	$ 44,076

METRO AIRLINES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

	Three Months Ended January 31,		Nine Months Ended January 31,	
	1992	1991	1992	1991
	(unaudited)		(unaudited)	
Operating revenues:				
Passenger	$27,312	$ 49,951	$86,378	$170,714
Cargo, mail and other	402	1,344	2,097	4,572
	27,714	51,295	88,475	175,286
Operating expenses:				
Flight operations	10,267	20,694	31,547	61,571
Maintenance	6,645	10,902	19,053	35,838
Passenger service	4,225	7,720	12,001	25,041
Fuel	2,581	7,899	7,597	22,337
Promotion and sales	2,888	6,021	8,994	21,105
General and administrative	1,145	3,578	3,728	8,219
Depreciation and amortization	624	1,607	1,881	4,931
Write-off of intangibles of Metro Airlines Northeast	-	6,736	-	6,736
	28,375	65,157	84,801	185,778
Operating income (loss)	(661)	(13,862)	3,674	(10,492)
Other income (expense):				
Interest expense, net	(30)	(1,625)	(109)	(4,803)
Reorganization items	52	-	(86)	-
Other, net	233	(43)	1,924	(157)
	255	(1,668)	1,729	(4,960)
Income (loss) before income taxes and extraordinary item	(406)	(15,530)	5,403	(15,452)
Provision (credit) for income taxes	(127)	20	1,986	114
Income (loss) before extraordinary item	(279)	(15,550)	3,417	(15,566)
Extraordinary item - utilization (reversal) of net operating loss carryforward	(148)	-	1,784	-
Net income (loss)	$ (427)	$(15,550)	$ 5,201	$(15,566)

See accompanying notes to consolidated financial statements.

(continued)

METRO AIRLINES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS (cont'd.)

(In thousands, except per share amounts)

	Three Months Ended January 31,		Nine Months Ended January 31,	
	1992	1991	1992	1991
	(unaudited)		(unaudited)	
Common shares outstanding (weighted average):				
Primary	6,114	6,114	6,114	6,113
Fully diluted	6,114	6,114	8,140	6,113
Earnings (loss) per common share				
Primary:				
Income (loss) before extraordinary item	$(0.05)	$(2.54)	$0.56	$(2.55)
Extraordinary item	(0.02)	-	0.29	-
Net income (loss)	$(0.07)	$(2.54)	$0.85	$(2.55)
Fully diluted:				
Income (loss) before extraordinary item	$(0.05)	$(2.54)	$0.42	$(2.55)
Extraordinary item	(0.02)	-	0.22	-
Net income (loss)	$(0.07)	$(2.54)	$0.64	$(2.55)

See accompanying notes to consolidated financial statements.

METRO AIRLINES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Nine Months Ended January 31,	
	1992	1991
	(unaudited)	
Cash flows from operating activities:		
Net income (loss)	$ 5,201	$(15,566)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	1,881	4,931
Write-off of intangibles of Metro Airlines Northeast	-	6,736
Deferred lease expense	550	(148)
Other	(866)	(1,185)
Changes in assets and liabilities:		
Accounts receivable	511	3,240
Expendable parts and supplies	633	(15)
Prepayments and other	(587)	(121)
Other assets	5	380
Accounts payable	527	(2,235)
Accrued liabilities	1,175	3,878
Liabilities subject to Chapter 11 proceedings	(1,895)	-
Other liabilities and deferred credits	322	3,650
Net cash provided by operating activities	7,457	3,545
Cash flows from investing activities:		
Proceeds from disposal of property and equipment	1	-
Capital expenditures	(2,005)	(13,277)
Net cash used by investing activities	(2,004)	(13,277)
Cash flows from financing activities:		
Net increase in short-term debt	-	3,283
Proceeds from issuance of long-term debt	-	10,219
Repayments of long-term debt	-	(6,739)
Net cash provided by financing activities	-	6,763
Net increase (decrease) in cash	5,453	(2,969)
Cash at beginning of period	4,519	3,862
Cash at end of period	$ 9,972	$ 893

See accompanying notes to consolidated financial statements.

METRO AIRLINES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) General information

The consolidated financial statements include the accounts of Metro Airlines, Inc. ("Metro") and its wholly owned subsidiaries. As used herein, the term the "Company" refers to Metro and its wholly owned subsidiaries.

The consolidated financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosure normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. Although the Company believes that the disclosure is adequate to prevent the information presented from being misleading, it is suggested that the consolidated financial statements be read in conjunction with the audited financial statements and notes thereto included in the Company's latest Annual Report on Form 10-K.

Certain reclassifications have been made in the prior period financial statements to conform to the current period presentation.

(2) Chapter 11 Reorganization

On April 1, 1991, Metro and two of its subsidiaries, Metroflight, Inc. and Metro Leasing, Inc. (collectively, the "Debtors"), filed voluntary petitions in the United States Bankruptcy Court (the "Bankruptcy Court") for reorganization under Chapter 11 of the United States Bankruptcy Code (the "Code"). The bankruptcy proceedings of the Debtors have been consolidated for administrative purposes only. Presently, each Debtor is maintaining its own separate bankruptcy case.

The Debtors are being operated as debtors-in-possession under the Code. As debtors-in-possession, the Debtors are authorized to operate their businesses, but may not engage in transactions outside of the ordinary course of business without approval of the Bankruptcy Court. Pursuant to the Code, a committee of the Debtors' unsecured creditors has been appointed. Among other things, that committee reviews certain proposed business transactions and is negotiating with the Debtors concerning a plan of reorganization.

Pursuant to provisions of the Code, liabilities arising prior to the Chapter 11 filings may not be paid without prior approval of the Bankruptcy Court. Accordingly, substantially all of the Company's prepetition debt and lease obligations are in default under the terms of the applicable agreements, and thus are classified as "Liabilities Subject to Chapter 11 Proceedings"

in the accompanying balance sheets. Certain of the Company's prepetition liabilities have subsequently been paid with approval from the Bankruptcy Court. These liabilities include payments for certain maintenance expenses, wages and employee benefits, and interline obligations.

With certain exceptions under the Code, the bankruptcy filings by the Debtors operate as an automatic stay against the commencement or continuation of any judicial, administrative or other proceedings against the Debtors, any act to obtain possession of property of or from the Debtors or any act to create, perfect or enforce any lien against property of the Debtors. As a result, creditors are prohibited from attempting to collect prepetition debts without the consent of the Bankruptcy Court.

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates continuity of operations and the realization of assets and the liquidation of liabilities in the ordinary course of business. However, such realization of assets and liquidation of liabilities is subject to significant uncertainties and Bankruptcy Court approval. Also, the ability of the Company to operate its businesses prior to confirmation of a plan of reorganization is dependent on its ability to generate sufficient cash from operations or other sources to meet its postpetition obligations.

Statement of Position 90-7 ("SOP 90-7"), "Financial Reporting by Entities in Reorganization Under the Bankruptcy Code," was issued by the American Institute of Certified Public Accountants in November 1990. The Company has accounted for all transactions related to the reorganization proceedings in accordance with SOP 90-7. Therefore, liabilities subject to Chapter 11 proceedings have been segregated on the accompanying consolidated balance sheet. These liabilities are recorded at the amounts expected to be allowed as claims by the Bankruptcy Court rather than estimates of the amounts for which those allowed claims may be settled as a result of any Bankruptcy Court-approved plan of reorganization. Interest expense on unsecured and undersecured obligations ceased to accrue at the Chapter 11 filing date.

As a result of the reorganization proceedings, the Company may sell or otherwise realize assets and liquidate or settle liabilities for amounts other than those reflected in the consolidated financial statements. Except as disclosed herein, the consolidated financial statements do not include any adjustments related to the recoverability and classification of recorded asset amounts, or the amounts and classification of liabilities, that may result from any plans, arrangements or other proceedings arising from the reorganization or other uncertainties. Upon approval of a plan of reorganization by the Bankruptcy Court, adjustments to the carrying values of the Company's assets and liabilities may be required to reflect the terms of such plan.

The period in which the Debtors have the exclusive right to file plans of reorganization has been extended until March 26, 1992. If plans are submitted within such period, the Debtors have an additional 60 days within which to obtain necessary acceptance of such plans. Such periods may be further extended in the discretion of the Bankruptcy Court upon a showing of cause. Generally, confirmation of a plan of reorganization requires acceptance of the plan by

certain majorities of each class of creditors (subject to certain exceptions under the Code), as well as formal approval of the plan by the Bankruptcy Court. The Company cannot predict the contents of any proposed reorganization plans and when or whether they will be accepted by the creditors or approved by the Bankruptcy Court. If no reorganization plan is approved, it is possible that the assets of the Debtors could be liquidated.

At this time, it is not possible to determine the content or terms of the Debtors' proposed reorganization plan. However, such plan may involve issuance of new debt instruments and/or equity securities as satisfaction for prepetition obligations of the Debtors, which could result in substantial dilution of the interests of Metro's current equity holders.

The Debtors' creditors have submitted claims for liabilities not paid and for damages incurred. There may be differences between the amounts at which any such liabilities are recorded in the financial statements and the amount claimed by the creditors. Litigation may ultimately be required to resolve such disputes.

The Company is incurring significant legal, professional and other expenses associated with the reorganization which are being expensed when incurred. The total amount of these expenses is not now readily determinable, but is likely to be material and may significantly affect future results.

(3) Earnings (loss) per common share

Primary earnings (loss) per common share is computed by dividing net income (loss) by the weighted average number of common shares (including shares of Class B common stock) outstanding during the periods. Fully diluted earnings per common share is calculated under the assumption that all of the 8 1/2% convertible subordinated debentures were converted at the beginning of the period, with earnings adjusted for interest, net of income tax. The effect of the 8 1/2% convertible subordinated debentures was antidilutive for the three and nine month periods ended January 31, 1991 and for the three month period ended January 31, 1992. For the three and nine month periods ended January 31, 1992, no interest was recorded on the debentures as a result of the Company's bankruptcy filing. The effect of outstanding stock options was insignificant in all periods.

(4) Affiliated entity and related-party transactions

The Company has significant transactions with affiliated entities that are owned by certain of the officers and directors of the Company. These transactions were contracted for, in management's opinion, on generally the same terms and rates that would have been obtained from other nonaffiliated parties. Reference is made to Note 5 to the Consolidated Financial Statements included in the Company's 1991 Annual Report on Form 10-K for further discussion of affiliated entity and related-party transactions.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

OPERATING STATISTICS

	Three Months Ended January 31,		Nine Months Ended January 31,	
	1992	1991	1992	1991
Passengers carried	385,990	709,034	1,237,246	2,509,824
Revenue passenger miles (RPMs)(000)	89,867	139,675	288,449	485,714
Available seat miles (ASMs) (000)	141,114	263,666	438,839	858,768
Passenger load factor	63.7 %	53.0 %	65.7 %	56.6 %
Average ticket price	$70.76	$70.45	$69.81	$68.02
Yield per RPM	30.4 ¢	35.8 ¢	29.9 ¢	35.1 ¢
Cost per ASM	20.1 ¢	22.2 ¢	19.1 ¢	21.2 ¢
Passenger trip length (miles)	233	197	233	194
Aircraft in fleet - end of period	40	114	40	114
Cities served - end of period	26	55	26	55

General

Until January 1991, the Company, through its wholly owned subsidiaries, operated four separate regional passenger airlines and an air cargo carrier. Since January 1991, the Company has sold or shut down three of its passenger operations and its cargo operation.

Following the cessation of operations by Eastern Air Lines, Inc. ("Eastern") in January 1991, Metro Express, Inc. ("Metro Express"), a wholly owned subsidiary of Metro which operated in Atlanta in affiliation with Eastern, suspended its operations. In February 1991, Metro Express filed a petition to be liquidated under Chapter 7 of the Code.

Metro Air Northeast, Inc. ("Metro Northeast"), Metro's subsidiary which operated in the northeastern United States in affiliation with Trans World Airlines, also suspended its operations in February 1991. Metro sold all of the outstanding capital stock of Metro Northeast in March 1991.

In February 1991, Metro sold all of the outstanding capital stock of Aviation Associates, Inc. ("AAI"), the subsidiary that operated in the Caribbean.

In September 1991, Metro sold all of the outstanding capital stock of Metro Express II, Inc. ("MXII"), its subsidiary that operated solely as an air cargo carrier.

The Company's remaining operations after March 1991 consist primarily of its Metroflight, Inc. ("Metroflight") subsidiary, which operates as the American Eagle carrier at Dallas/Fort Worth in affiliation with American Airlines, Inc. ("American").

On April 1, 1991, Metro and two of its wholly owned subsidiaries, Metroflight and Metro Leasing, Inc. (collectively, the "Debtors"), filed voluntary petitions for reorganization in the United States Bankruptcy Court (the "Bankruptcy Court") under Chapter 11 of the Code. The filing was necessary due to substantial weakening of the Company's financial condition resulting from losses in the preceding two years, primarily in its Atlanta and Northeast operations. Also contributing to the losses were increased fuel prices and lower passenger traffic as a result of the war in the Persian Gulf. Each of the Debtors is in possession of its property and is being operated as a debtor-in-possession pursuant to the Code while developing a plan of reorganization.

Because of the nature and scope of the events described above, in particular the transition of the Company from a holding company operating at several locations with three major carrier affiliates to a single passenger carrier providing feeder service to one hub, the results of operations discussed below are materially different from the operating results for the third quarter and the first nine months of the previous year and are not necessary indicative of future or continuing trends. The following discussion and analysis also includes a comparison of the separate results of Metroflight, the Company's primary remaining operating subsidiary.

Three Months and Nine Months Ended January 31, 1992 and 1991

Operating revenues in the quarter ended January 31, 1992 were $27.7 million, a 46.0% decrease from the quarter ended January 31, 1991. For the nine month period, operating revenues were $88.5 million, a 49.5% decrease over the prior year. The reduction in revenues is due to a decline in RPMs, coupled with a decline in yield per RPM, resulting from the disposal of subsidiaries described above. RPMs totalled 89.9 million and 288.4 million for the third quarter and first nine months of fiscal 1992, respectively, down 35.7% and 40.6% from the comparable prior year periods. Yield per RPM declined 15.1% to 30.4 cents and 14.8% to 29.9 cents, respectively, for the three and nine month periods ended January 31, 1992. This decline is attributed in part to the historically lower yields at Dallas/Fort Worth compared to the Company's former operations at Atlanta and in the Northeast and the Caribbean, as well as a decline from the prior year in yields at Dallas/Fort Worth.

Metroflight's operating revenues for the quarter ended January 31, 1992, decreased 0.2%, as RPMs increased 0.6% and yield per RPM decreased 0.3%. For the nine months ended January 31, 1992, revenues increased 1.9% over the prior year primarily due to a 4.9% increase in RPMs, offset somewhat by a 2.9% decrease in yield per RPM. The lower yields compared

to the prior year periods reflect widespread fare discounting throughout the industry in an attempt to stimulate traffic in a soft economy.

Operating expenses in the third quarter of fiscal 1992 decreased 56.5% over the prior year to $28.4 million. For the nine month period, operating expenses decreased 54.4% to $84.8 million. The decreases reflect a reduction in both capacity (as measured by ASMs) and cost per ASM. ASMs totalled 141.1 million and 438.8 million for the third quarter and first nine months of fiscal 1992, respectively, down 46.5% and 48.9% from the comparable prior year periods. Cost per ASM decreased 9.5% to 20.1 cents in the quarter ended January 31, 1992 compared to 22.2 cents in the year-earlier quarter. For the nine month period, cost per ASM decreased 9.9% to 19.1 cents, compared to 21.2 cents last year. The reduction in unit costs is attributed to the lower cost structure and better aircraft utilization in the Company's remaining operation at Metroflight as compared to the subsidiaries which were sold or liquidated, as well as to lower fuel costs in the current year following the resolution of the Persian Gulf conflict .

Metroflight's operating expenses in the third quarter of fiscal 1992 increased by 0.5% over the prior year while ASMs decreased by 3.2%. For the first nine months of fiscal 1992, operating expenses and ASMs increased by 3.4% and 1.9%, respectively, compared to the same period last year. The decrease in ASMs for the quarter ended January 31, 1992 was principally attributable to the reduction in capacity resulting from the reconfiguration of the Company's 26 Saab 340 aircraft from 34 seats to 30 seats. The increase in ASMs for the nine months ended January 31, 1992 was primarily due to the increase in Metroflight's flight activity through improved aircraft utilization, offset somewhat by the reconfiguration of the Saab aircraft. Metroflight's cost per ASM in the third quarter and first nine months of fiscal 1992 increased, respectively, by 3.6% and 1.6% from the prior year. Although fuel prices declined significantly from year-earlier levels, increases in other costs such as insurance, flight crew salaries, computer reservations charges and certain maintenance expenses, resulted in higher unit costs.

As a result of the factors discussed above, the Company recorded an operating loss of $661,000 in the quarter ended January 31, 1992, compared to an operating loss of $13.9 million in the quarter ended January 31, 1991. For the nine months ended January 31, 1992, the Company had operating income of $3.7 million, compared to an operating loss of $10.5 million a year earlier. Metroflight's operating income decreased $202,000 and $1.2 million in the three and nine month periods ended January 31, 1992, respectively, from the same periods in the prior year, principally as a result of lower yields.

Net interest expense was $30,000 and $109,000 in the three and nine month periods ended January 31, 1992, respectively, compared to $1.6 million and $4.8 million in the comparable prior year periods. Interest expense decreased considerably due to the Company's Chapter 11 filing, which allowed the Company to cease accruing interest expense on the majority of its debt. The Company incurred net reorganization credits (including interest income) of $52,000 for the quarter ended January 31, 1992 and net reorganization expense of $86,000 for the nine months ended January 31, 1992. Other income, primarily amortization of gains on sale/leaseback transactions and collection of certain receivables that had previously been written

off, totalled $233,000 in the quarter ended January 31, 1992 and $1.9 million in the nine months ended January 31, 1992.

Net loss for the third quarter of fiscal 1992 was $427,000, or $.07 per common share, compared to a net loss of nearly $15.6 million, or $2.54 per common share in the year-earlier period. The Company recorded an income tax credit (including state and foreign taxes) of $127,000 in the third quarter of fiscal 1992, which was offset by an extraordinary expense of $148,000, or $.02 per share from the reversal of the utilization of net operating loss carryforwards. Net income for the nine months ended January 31, 1992 was $5.2 million, or $.85 per common share ($.64 fully diluted), compared to a net loss of $15.6 million, or $2.55 per common share in the year-earlier period. The current year net income reflects an income tax provision (including state and foreign taxes) of $2.0 million, which was partially offset by an extraordinary credit of $1.8 million, or $.29 per share ($.22 fully diluted), from the utilization of net operating loss carryforwards.

Liquidity and Capital Resources

As previously discussed under "Management's Discussion and Analysis - Results of Operations," the Debtors filed for reorganization under Chapter 11 of the Code on April 1, 1991 due to substantial weakening of the Company's liquidity and financial condition resulting from losses in the preceding two years, primarily in its Atlanta and Northeast operations. These problems were exacerbated by increased fuel prices and lower passenger traffic as a result of the war in the Persian Gulf.

As of January 31, 1992, the Company had cash and cash equivalents of $10.0 million, compared to $4.5 million at April 30, 1991. This increase is due in part to the automatic stay under the Code which enjoins the Company from paying prepetition obligations of the Debtors. In addition, the operations of the Company's primary remaining subsidiary, Metroflight, have historically been profitable. Although the Company incurred a loss in the current quarter, it has generated cumulative operating profits and positive cash flow since April 1, 1991. During the nine months ended January 31, 1992, the Company earned net income of $5.2 million and its operating activities provided $7.5 million in cash flow. Since the Chapter 11 filings, the Company has obtained trade credit terms with a number of its vendors, and the resulting increase in accounts payable and accrued liabilities provided approximately $1.7 million of the Company's cash flow from operating activities in the first nine months of fiscal 1992.

As is common in the airline industry, the Company has historically sustained a working capital deficit, in part due to the highly capital intensive nature of the industry. During recent years, the Company used internally generated funds, bank borrowings, operating lease arrangements and proceeds from public offerings of debt and common stock to expand and provide the working capital necessary for its operations. As a result of the Chapter 11 filings and the reclassification of liabilities subject to Chapter 11 proceedings as noncurrent, the Company had positive working capital of $7.5 million at January 31, 1992.

Based on current projections, the Company believes that cash flow from Metroflight's operations will be sufficient to meet its ongoing operating and capital requirements in fiscal 1992. However, the failure of Metroflight to continue to generate positive cash flow from operations would have a material adverse effect on the Company's ability to meet its obligations. See "Legal Proceedings" for a discussion regarding the terms of Metroflight's contract with American and American's attempt to have such contract held unenforceable. The Company believes that the loss of its affiliation with American would have a material adverse effect on Metro and Metroflight.

The Company currently has no available borrowing capability and no assurance can be given that the Company would be able to obtain debtor-in-possession financing if it were needed. Other than Metroflight's office and maintenance facility at Dallas/Fort Worth and certain spare parts (which cannot be pledged without the consent of the Company's primary bank lender), the Company has no significant unencumbered assets that could be sold or pledged to raise additional cash.

As discussed in the Company's Form 10-K for the year ended April 30, 1991, in order for the Debtors to reorganize and emerge from Chapter 11, the Debtors must file and obtain confirmation of a plan of reorganization. Such plan must address the repayment or other resolution of the Debtors' prepetition obligations. Although the Company is currently preparing a proposed plan of reorganization, there can be no assurance that, if submitted, such plan will be confirmed. Such plan may involve issuance of new debt instruments and/or equity securities as satisfaction of prepetition obligations, which could result in substantial dilution of the interests of Metro's current equity holders.

The Company estimates it has approximately $65 million of prepetition liabilities subject to compromise, including approximately $40 million of debt obligations. Creditors have submitted claims for prepetition liabilities and certain creditors have asserted that amounts owed are substantially greater than the Company estimates. Resolution of these claims may require litigation. The Company is unable to predict the ultimate outcome of any such disputes.

With certain exceptions under the Code, the Chapter 11 filings operate as an automatic stay against the commencement or continuation of any judicial, administrative, or other proceedings against the Debtors, any act to regain possession of property of or from the Debtors or any act to create, perfect or enforce any lien against property of the Debtors. Pursuant to provisions of the Code, liabilities arising prior to the Chapter 11 filings may not be paid without prior approval of the Bankruptcy Court. The Company has paid certain prepetition obligations with Bankruptcy Court approval, including certain maintenance expenses, employee wages and benefits, and certain passenger claims and refunds. Under the Code, the Company is required to pay substantial expenses associated with the Chapter 11 proceedings.

Under Section 365 of the Code, the Company had to assume all unexpired leases of non-residential real property within 60 days of the filing or, absent an extension from the Bankruptcy Court, such leases would have been deemed rejected. The Company has obtained an extension

of such 60-day deadline up to and including the date of the confirmation of a plan of reorganization, subject to further order of the Bankruptcy Court. Under Section 365 of the Code, all other executory contracts and leases must be assumed or rejected before the confirmation of a plan of reorganization. However, parties to the Debtors's executory contracts and leases are allowed to file motions with the Bankruptcy Court to require the Debtors to affirm or reject such executory contracts or leases by a specific date. Assumption of any of the Company's executory contracts or leases will require the Company to cure all prior defaults under the contracts or leases. Rejection of a contract or lease constitutes a breach of the contract or lease, giving the other party to the contract a right to assert a prepetition claim against the Company for the damages arising out of the breach. The Company is in the process of reviewing its executory contracts and leases and will make a determination as to the assumption or rejection of its executory contracts and leases over the next several months.

All of the aircraft currently used by the Company are leased. The Company has rejected the leases covering five Gulfstream G-IC aircraft which the Company withdrew from service during the fourth quarter of fiscal 1991. The Company is negotiating with the lessors of its remaining aircraft concerning the terms and conditions under which it might retain such aircraft; however, at this time it has not completely determined which aircraft-related agreements it will assume or reject.

In the absence of reaching other acceptable arrangements with its lessors, arrearages on aircraft lease agreements assumed by the Company are required to be paid in full at the time of assumption. The lessors under those agreements that the Company rejects are entitled to claim damages as a result of the breach of their contracts. The Company estimates that prepetition arrearages on aircraft currently being used total approximately $6.7 million. As required by the Code, the Company has timely made all postpetition lease payments for aircraft operated postpetition under leases which have not been affirmed or rejected.

The Company has no commitments for the acquisition of additional aircraft or for other significant capital expenditures. Capital expenditures, primarily for rotable parts and ground equipment purchases and improvements to leased aircraft, totalled $2.0 million in the nine months ended January 31, 1992.

On March 21, 1991, Metro sold all of the outstanding capital stock of Metro Northeast to ZAL Airlines Holding, Inc. ("ZAL"). The sales price was approximately $3.9 million and consisted of a short-term promissory note from ZAL, which note is guaranteed by Metro Northeast and its subsidiaries and is secured by a pledge of all of the capital stock of Metro Northeast and the assets of Metro Northeast and its subsidiaries. ZAL defaulted on payment of the promissory note, and on May 31, 1991 ZAL and Metro Northeast and its subsidiaries filed for reorganization under Chapter 11 of the Code in the United States Bankruptcy Court for the Western District of New York. The Company has pursued its claims against ZAL and Metro Northeast and its subsidiaries in their bankruptcy proceedings and has reached an agreement with them and their official unsecured creditors' committee under which the Company's claim for the balance of the note has been compromised and settled in exchange for the release of the

Company's liens. Under the settlement agreement, which has been approved by the Bankruptcy Court in New York, the Company will receive cash of $100,000, equity in a spare engine of approximately $116,000 and spare parts valued at approximately $2.1 million. The effects of the settlement of the note, which was fully reserved in fiscal 1991, have not been recorded in the accompanying financial statements.

During the nine months ended January 31, 1992, the Company received cash of approximately $750,000 and rotable parts worth approximately $675,000 as payments on the note from ZAL, which were recorded as other income in the Company's income statement.

PART 2. - OTHER INFORMATION

Item 1. Legal Proceedings

The Company's affiliation with American is established under and governed by certain code-sharing and other services agreements (the "American Agreements"), the initial terms of which extend until November 1992, unless terminated by either party before that time under various conditions. In addition, the Company and American have entered into additional agreements that the Company contends provide for a ten-year extension of the American Agreements to November 2002 (the "Extension Agreements").

In May 1991, American filed a declaratory judgment action in the Bankruptcy Court requesting a ruling that the Extension Agreements signed by American are unenforceable and that American has no obligation to negotiate or agree with Metro and Metroflight (collectively, "Defendants") for American Eagle service at Dallas/Fort Worth after November 1992 (the "Ten-Year Contract Claim"). The Defendants answered by denying American's assertions and countersuing for a declaratory judgment that a ten-year extension of the American Agreements is enforceable or, alternatively, that American is obligated to enter into a new ten-year term of the American Agreements. The Defendants have also requested damages for breach of the Extension Agreements and American's fraudulent or negligent misrepresentation regarding its intent to extend the American Agreements for ten years. Further, the Defendants seek an injunction preventing American from violating the antitrust laws by unlawfully using its market power to attempt to eliminate competition at Dallas/Fort Worth (the "Antitrust Claim") and damages for the value of property or obligations incurred because of American's false representations (the "Fraudulent Transfer Claim"). Finally, Metro and Metroflight are seeking damages for breach of another agreement by American to give Metro the right to become the American Eagle carrier at Miami, Florida and for damages sustained by Metro because of American's misrepresentations in promising Metro the right to become the Miami American Eagle. Alternatively, Metro and Metroflight seek to compel American to enable Metro to become the Miami American Eagle.

American filed for a judgment on the pleadings regarding the Ten-Year Contract Claim, the Antitrust Claim and the Fraudulent Transfer Claim. In addition, American moved to strike

Metro's and Metroflight's affirmative defenses to its claims under the declaratory judgment action. The Bankruptcy Court elected to treat American's motion for judgment on the pleadings regarding the Ten-Year Contract Claim and motion to strike the Defendants' affirmative defenses as a motion for summary judgment, which motion was argued before the Bankruptcy Court on December 16, 1991. On January 31, 1992, the Bankruptcy Court denied American's motion for summary judgment with respect to the Ten-Year Contract Claim. A trial regarding these matters is currently scheduled for April 27, 1992; however, no discovery has occurred in the case.

Reference is made to Item 3, Legal Proceedings, in the Company's Annual Report on Form 10-K for the fiscal year ended April 30, 1991 for a description of other legal proceedings involving the Company.

Item 3. Defaults Upon Senior Securities

As a result of its bankruptcy filings, the Company is in default under the terms of substantially all of its leases, notes, debentures and other material agreements. The amount of such defaults is not readily determinable. The Company is protected by the bankruptcy proceedings from default remedies.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 6. Exhibits and Reports on Form 8-K

No reports on Form 8-K were filed by the Company during the quarter ended January 31, 1992.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: March 5, 1992

METRO AIRLINES, INC.
(Registrant)

Brian K. Miller
Senior Vice President
Chief Financial Officer